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DEPARTMENT FOR EUR/NCE
TREASURY FOR ANNE ALIKONIS

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SUBJECT: HUNGARY: KOKA ON TROUBLED COALITION, PARTY POLITICS

REF: BUDAPEST 1298

Classified By: Economic Officer John McGuire for Reasons 1.5 (b) and (d)
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Reforms Stall as Coalition Suffers

¶1. (C) Summary: In a private meeting with Ambassador Foley November 8, Minister of Economy and SzDSz Party President Janos Koka expressed his pessimism over the prospects for further reform and cast doubts on continued coexistence with a fractured MSzP. He admits, however, that his party has few practical options, with "no responsible partners on the right." He will focus his energies on rebuilding the party following his departure from the Ministry, but emphasized that he will extend his tenure if necessary to make a trip to promote energy partnership with Turkmenistan and Azerbaijan. End Summary.

¶2. (C) Coming directly from a press conference announcing a major investment in nation-wide broadband coverage, an initially upbeat Koka grew visibly frustrated in discussing the domestic political dynamic. Noting heavy-handed criticism - and under-handed tactics - from the MSzP, he couched his party's liberal commitment to reform as being nearly "the only reason" that could justify their continued presence in the governing coalition.

¶3. (C) Koka charged that the MSzP has repeatedly violated its coalition agreement with the SzDSz, most recently with a vote to defeat minor tax reforms in a stunning November 5 session despite prior intra-coalition agreement on the measures. He complained that "no deal" with the MSzP is sacred, noting that a detached Gyurcsany could only say "sorry, Janos" as his party broke ranks in Parliament. Koka concluded by admitting that he "simply can't explain what is going on inside the MSzP."

¶4. (C) If the MSzP is a black box, the increase in spending on the Prime Minister's Office (PMO) is clear - and in Koka's view a clear contravention of the commitment to reform state administration in favor of populist policies. Koka is preparing for the next intra-coalition battle as SzDSz president: language in the June Socialist-SzDSz coalition agreement says that the coalition will vote on comprehensive tax reform in January 2008. Regarding Ministry of Finance press releases about unveiling long-term tax plans next week, Koka expressed his surprise, noting that statements in such briefings would certainly be "without my knowledge though perhaps not without my consent." (Note: Minister Veres has told us separately that comprehensive tax reform will not happen until Hungary meets its convergence deficit targets, likely in 2009.) Koka is floating a proposal to fund tax reform, including some cuts, with better-than-expected tax revenues.

¶15. (C) Koka Chief of Cabinet Csaba Kakosy, a possible successor as Minister of Economics (reftel) and SzDSz Member of European Parliament Istvan Szent-Ivanyi joined Koka in painting a bleak picture of prospects for structural reform. To Koka, Gyurcsany won't "...or can't" implement needed reforms, while to Szent-Ivanyi, the PM's "rhetoric on reform always exceeded his performance." Koka commented that "you can't fault Gyurcsany's speeches," but concluded that he "says one thing and does another."

¶16. (C) Reminded of major business concerns, Koka argued that Foreign Direct Investment has not eroded, despite high growth in neighboring countries. Despite his misgivings about reform, Koka argued that Hungary is still very competitive in infrastructure and human capital, and that needed political fixes are "easier" than building road networks or revamping an educational system. He appealed to the International Community not to lose faith in Hungary.

Fidesz: Weak Prospects for Cooperation

¶17. (C) On reports of a possible SzDSz-Fidesz alliance, Szent-Ivanyi conceded that Fidesz might offer a better economic program if they gained power, despite populist Orban rhetoric. SzDSz would have ample reason to break the coalition agreement in January - especially if there is no agreement on tax reform, but Koka feels a "responsibility" to remain in the coalition. He is troubled by Orban's "inability to work with others," his populism, and his attempts to forge a single conservative bloc extending to the far right. Koka's responsibility is towards the liberal value of tolerance and against the "archenemies of the liberal agenda: populism and extremism." Orban aside, the

BUDAPEST 00001829 002 OF 002

SzDSz leaders agreed that it is possible to work with reform-oriented conservatives in Fidesz who share many SzDSz goals. Indeed, he remarked that it is "a more natural alliance for reform than working with the Socialists."

Possible Turkmenistan Visit

¶18. (C) Disappointed that European Union energy representative Van Aartsen declined his proposal to travel together, Koka is still strongly considering a trip to Turkmenistan to discuss the Nabucco natural gas pipeline. If a clear opportunity presents itself, Koka is prepared to extend his term as minister by a few weeks to accommodate a visit.

Trying to Revive Support for SzDSz; Reform

¶19. (C) That will not be his only travel in the coming months. He is interested in visiting Washington early next year in his party capacity, but will focus primarily on the home front. With SzDSz support consistently polling below 5 percent, the minimum threshold for parliamentary party recognition, Koka and Szent-Ivanyi laid out comprehensive plans for reinvigorating their party. They minimized internal divisions within the party, emphasizing their plans to expand their public outreach on the urgent need for reform, primarily because of lackluster current economic performance, with Hungarian GDP growth rates below that of the eurozone as a whole and with its neighboring countries adopting highly competitive economic regimes including flat taxes. Koka looks forward to being able to speak freely once he leaves the government, and plans to travel "50,000 miles" next year to help buttress SzDSz support beyond its traditional stronghold of Budapest.

Rather Be Right Than Be In Parliament?

¶10. (C) Comment: Koka's frustration regarding the stalled progress of "half-reforms" is obvious. He is struggling to remain above the fray as the friction between the parties -

and within the MSzP - continues. Despite his optimistic assessment, his planned departure from the Ministry underscores the fact that the party is also struggling for its future. Although there is little love left to lose in the coalition, there is little chance of the SzDSz surviving if it leaves what members of both parties increasingly regard as an arranged marriage. End Comment.
FOLEY